

TEACHERS' RETIREMENT BOARD

SUBCOMMITTEE ON CORPORATE GOVERNANCE

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SUBJECT: Investor Protection Principles

ITEM NUMBER: 5

ATTACHMENT(S): 5

ACTION: X

DATE OF MEETING: July 9, 2003

INFORMATION: \_\_\_\_\_

PRESENTER(S): Janice Hester Amey/Elleen Okada

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**Executive Summary**

At the last meeting of the Subcommittee, staff was directed to provide members with the manager response matrix that staff has been using to track responses during the Investment Protection Principles (IPP) process. Staff was also directed to incorporate the Chair's new criteria into the Corporate Governance Program Policies. The IPP will also undergo a name change at the request of the Chair to the Investment Protection Standards (IPS).

The manager response matrix is attached to this item in the form of three attachments. Attachment 1 is the matrix for the domestic equity managers; Attachment 2 is the matrix for the international equity managers; and Attachment 3 is the matrix for high yield managers. All of the attachments are discrete, thus Attachment 1 runs from page one to sixteen; Attachment 2 runs from page one to sixteen; and Attachment 3 runs from page one to four.

The Financial Responsibility Criteria for Corporate Investments is attached to this item and labeled Attachment 4; this document contains the new criteria described above and seeks approval of the revision. The new language is bolded and underlined for your reference.

The proposed **Investment Protection Standards** document is also attached to the item and labeled Attachment 5.

Staff expects to send the new document to the investment managers that are represented in the manager response matrices. The substantive changes relate to Part A of the document.

Staff recommends that the members approve the proposed changes to the Corporate Governance Program Policies and the stand alone **Investment Protection Standards** document.

## Domestic Equity Managers

### ARIEL

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**BGI**

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			<b>X</b>	Client confidentiality concerns. We should assume they invest in the securities of their corporate clients in light of their index business
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	<b>X</b>			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP			<b>X</b>	Will report % of comm, but object to reporting <b>amounts</b> as it may compromise best execution
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	<b>X</b>			Provided copy of safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	<b>X</b>			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	<b>X</b>			

**BROWN**

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	<b>X</b>			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	<b>X</b>			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	<b>X</b>			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	<b>X</b>			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	<b>X</b>			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	<b>X</b>			

### CHICAGO EQUITY PARTNERS

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**DELAWARE - U.S.**

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			Request that we define "periodically" as 30 days after the quarters ending March 31 and September 30
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			Request that the annual reporting date be 30 days after the quarter ending March 31
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request that quarterly reporting be due 30 days after the end of each quarter. Also request permission to use the list of broker-dealers who have adopted the State of NY IPPs, which will be provided by State of NY
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Certification of the safeguards plan will be provided 30 days after the quarter ending March 31
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## DELPHI

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## DENVER

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			



# DSI

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			DSI is a member of UBS Global Asset Mgmt. Provided a copy of UBS Policies for compliance w/Part A of the IPP
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

### FIRST QUADRANT

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Require permission from clients to disclose relationship. Request we keep their client list confidential
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

# MELLON

Provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Have adopted safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.			X	Mellon is a quantitative manager. As such, Mellon relies on quantitative databases to evaluate investments from a valuation viewpoint.

**NCM**

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	<b>X</b>			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	<b>X</b>			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	<b>X</b>			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	<b>X</b>			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	<b>X</b>			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	<b>X</b>			

# PUTNAM

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Ability to comply is contingent upon client permission
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP			X	Other clients may have instructed them to use specific brokers (who may or may not have adopted IPP). Have concerns this requirement may affect the management process for their other clients. Also request a list of brokers from CalSTRS
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## SASCO

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**SSgA**

<b>Manager certified that they have adopted IPP</b>	<b>COMPLIANCE</b>			<b>COMMENTS</b>
	<b>YES</b>	<b>NO</b>	<b>PENDING</b>	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	<b>X</b>			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	<b>X</b>			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	<b>X</b>			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	<b>X</b>			Provided copy of safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	<b>X</b>			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	<b>X</b>			

**TCW**

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			



# UBS

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Provided copy of safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## International Equity Managers

### BANK OF IRELAND

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## BATTERYMARCH

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company			X	Will be difficult to comply w/outside auditor requirement as info is not readily available for companies in EAFE and Emg. Mkts.
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.			X	Evaluating ways where it can incorporate corp gov into stock selection process

## BLACKROCK

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Concerns regarding client confidentiality
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A. Although they have no formal safeguards plan, manager certifies that investment decisions are not influenced by affiliations
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

### CAPITAL GUARDIAN

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**DELAWARE - Non-U.S.**

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			Request that we define "periodically" as 30 days after the quarters ending March 31 and September 30
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			Request that the annual reporting date be 30 days after the quarter ending March 31
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request that quarterly reporting be due 30 days after the end of each quarter. Also request permission to use the list of broker-dealers who have adopted the State of NY IPPs, which will be provided by State of NY
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Certification of the safeguards plan will be provided 30 days after the quarter ending March 31
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## FIDELITY

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## FIDUCIARY TRUST

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Certify that they will adopt safeguards plan and provide copy annually.
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			



## GOLDMAN SACHS

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Provided copies of policies and procedures regarding confidential or proprietary info, Chinese Wall
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## LAZARD FRERES

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Certified that they have policies in place and will certify annually that policies are enforced
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**MARVIN PALMER**

Certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	<b>X</b>			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	<b>X</b>			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	<b>X</b>			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	<b>X</b>			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	<b>X</b>			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	<b>X</b>			

## MORGAN STANLEY

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Have policies and procedures in place
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

### NEWPORT PACIFIC

Certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Working with parent company to ensure that IPP is included in current policy
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

# NICHOLAS APPLGATE

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Request list of brokers
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Provided copy of safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			Cannot take responsibility for the accuracy of the financial reports
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			Although they consider corporate governance, they will not tell a company how to run its affairs. They can offer no assurances that they can uncover inefficient policies or that they will invest only in companies with exemplary corporate governance policies

# OECHSLE

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			Will disclose commissions related to CalSTRS and not the assets of the manager in aggregate
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			Oechsle may invest in international issues that are not subject to US disclosure requirements that may not report financial data in the 10-K or 10Q and may not release information to determine auditor consulting services
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## SCHRODER

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client			X	Client confidentiality concerns
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			



# UBS

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP	X			
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Provided copy of safeguards plan
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## High Yield Managers

### HARTFORD INVESTMENT MANAGEMENT COMPANY

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP				N/A. Managing a fixed income portfolio. Commissions are not typically paid to brokers dealers when fixed income bonds are traded.
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.	X			Manager certified that all investment decisions will be based on the best interests of CalSTRS and will not permit other client relationships to influence those decisions.
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

## MW POST

Manager provided detail regarding compliance with each item	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP				N/A. Managing a fixed income portfolio. Commissions are not typically paid to brokers dealers when fixed income bonds are traded.
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.				N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

# SHENKMAN

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP				N/A. Managing a fixed income portfolio. Commissions are not typically paid to brokers dealers when fixed income bonds are traded.
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.				N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

### SEIX INVESTMENT ADVISORS

Manager certified that they have adopted IPP	COMPLIANCE			COMMENTS
	YES	NO	PENDING	
Money mgmt firms must disclose periodically any client relationship, including mgmt of 401(k) plans, where the money mgmt firm could invest CalSTRS' moneys in the securities of the client	X			
Money mgmt firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients	X			
Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the IPP				N/A. Managing a fixed income portfolio. Commissions are not typically paid to brokers dealers when fixed income bonds are traded.
Money mgmt firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firms. Each money mgmt firm shall provide CalSTRS with a copy of the safeguards plan and shall certify annually to CalSTRS that such plan is being fully enforced.				N/A
In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company	X			
In deciding whether to invest CalSTRS moneys in a company, money mgmt firms must consider the corporate governance policies and practices of the subject company.	X			

**California State Teachers' Retirement System  
Corporate Governance Program  
Policies**

Attachment A

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
FINANCIAL RESPONSIBILITY CRITERIA  
FOR CORPORATE INVESTMENTS**

The following criteria deal with matters considered of a financial nature only. In most cases they are general policy guidelines to voting shares held at annual and special corporation shareholder meetings. They are not designed to substitute for analysis and judgement, which should be exercised as circumstances dictate. The guidelines should not be regarded as mandatory, if local factors and prudence suggest otherwise. Each issue will be reviewed to ascertain surrounding facts, and exceptions may be made based on the legal requirements of the countries, local conventions or states in which the company is registered. It is recognized that, in foreign markets, there may be practical difficulties in obtaining notices of company meetings and that the timeliness and disclosure requirements, which prevail in the U.S., are often not evident. In those circumstances where adequate and timely disclosure of information necessary to reach an informed and meaningful decision is not possible, the responsible party may abstain. It is also recognized that the decision to abstain by the party responsible for voting the proxy may be due to practical difficulties, to other financial criteria which outweigh the benefits to be gained by voting or to practical difficulties and circumstances beyond its control. Notwithstanding any limitations, it is expected that there will be no abstentions on issues that may affect the economic value of the shareholdings. It is expected that in all cases, the parties will make a good faith effort to get the necessary materials, but it is recognized that, in foreign markets, the means for obtaining planned company meeting notices, dates and agendas, may not be readily available. Nevertheless, a true and accurate record shall be kept of the materials, which have been obtained, and of how proxies have been voted or otherwise managed. This record shall include, to the extent possible, a description of efforts made to obtain materials, which were not successful and the reasons why the efforts were not successful. It is understood that it is the intent of the Teachers' Retirement Board to exercise its voting authority, either directly or through other parties, to whom it has delegated responsibility for voting proxies, according to their judgement of its best financial interests, whenever and wherever possible, and that, while logistics or other factors may sometimes interfere with this intent and principle, it is the ultimate goal of CalSTRS to work with the indicated parties to remove the barriers to voting all shares over time.

**INVESTMENT PROTECTION ~~PRINCIPLES~~ STANDARDS**

Every financial organization that provides investment banking services and is retained or utilized by the California State Teachers' Retirement System (CalSTRS) should adopt the terms of the **Investment Protection Standards**, ~~agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter "the Investment Protection Principles")~~. **On April 28, 2003, the New York Attorney General, the Securities and Exchange Commission, the New York Stock Exchange, NASD, and the North American Securities Administrators Association announced a settlement with ten of the nation's largest investment firms (hereinafter "the Global**

**Settlement”)), the terms of which significantly reduce the conflicts of interest between Research and Investment Banking.** In retaining and evaluating any such financial organization, CalSTRS will give significant consideration to whether such organization has adopted the Investment Protection Principles **Standards**.

The Investment Protection **Standards include, but are not limited to, the following:** Principles are as follows:

- **Severing** the link between compensation for analysts and investment banking;
- **Completely separating Research and Investment Banking, including physical separation. Research will not report directly or indirectly to or through Investment Banking.**
- **Requiring that Research have its own dedicated legal and compliance staff.**
- **Requiring firms to create and enforce firewalls reasonably designed to prohibit all communications between Research and Investment Banking.**
- **Prohibiting Research from participating in efforts to solicit investment banking business. Analysts may not participate in “pitches” or Investment Banking sponsored road shows.**
- **Prohibit~~ing~~** investment banking input into analyst compensation;
- **Establishing written criteria (exclusive of Investment Banking input) to be used for compensation decisions.**
- **Compensating analysts in significant part based on the quality and accuracy of their work.**
- **Investment Banking shall have no input into an analyst’s evaluation.**
- **Decisions concerning compensation shall be documented.**
- **Cre~~ating~~** a review committee to approve all research recommendations.
- **The review committee will review all changes in ratings, if any, and material changes in price targets, if any, contained in the firm’s research reports.**
- **The review committee will conduct periodic reviews of research reports to determine whether changes in ratings or price targets, if any, should be considered.**
- **The review committee will monitor the overall quality and accuracy of the firm’s research reports.**

- Requiring that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination. ~~and~~
- Prohibiting Investment Banking input into company-specific coverage decisions (i.e., whether or not to initiate or terminate coverage of a particular company in research reports furnished by the firm).
- Disclosinge in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- Each quarter, firms shall publish on their websites a chart showing their analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.
- Establishing a monitoring process to ensure compliance with the standards principles.
- Each firm shall conduct an annual review to provide reasonable assurance that the firm is in compliance.
- CalSTRS reserves the right to request an independent audit or confirmation of compliance with these Standards and in the case of those firms party to the Global Settlement, a copy of the report prepared by the Independent Monitor.

Note: Upon approval by CalSTRS of a firm's plan or policy, these Standards are to be implemented consistent with the timeframes established in the Global Settlement. In submitting plans, a firm may propose a specific alternative method for complying with one or more of the Standards, which will be considered only if such alternative method is consistent with the intent of the Standards and achieves the same substantive objective.

CalSTRS will give significant consideration, in retaining and evaluating money managers, as to whether such managers are abiding by the following:

1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.
2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection ~~Principles~~ Standards.



4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officer that such plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including the its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company.
6. In deciding whether to invest State of Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.

The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.

#### **A. AUDITORS**

1. The Audit Committee has a unique role in the capital markets and the overall governance structure. The Audit Committee shall have at least 3 members and no more than 5. The Audit Committee shall adopt a formal, written charter and provide a report that references the charter and disclosure, in the company's annual report/proxy statement whether the Audit Committee has complied with its charter responsibilities. Any amendments to the Audit Committee charter shall be reported to the shareholders in the annual report/proxy statement. The Audit Committee members must have full access to company financial documents. The Audit Committee shall regularly evaluate the relationship between management and the external and internal auditors.
2. The Audit Committee shall have responsibility and authority to select, retain/replace and evaluate the external auditor, including any issues that may impair the external auditor's independence and direct the scope of the duties to be performed. The Audit committee and the Board of Directors, as the fiduciary representatives of shareholders, are the ultimate authority to which the external and internal auditors are accountable.
3. All members of the Audit Committee will be persons whose past/current employment experience/education demonstrates expertise in finance and/or accounting, including being or having been a CEO or other senior executive officer with financial oversight responsibilities. The Board of Directors shall provide a written and signed statement in the annual report/proxy statement, attesting that it has determined that the members of the Audit Committee have the expertise in finance and/or accounting necessary for the execution of its oversight and monitoring duties. The Board of Directors shall attest in this statement, that the Audit Committee members can read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. The Board of Directors

shall assess the adequacy of the Audit Committee on an annual basis. This report should have the same protections offered by the SEC in its “safe harbor” for the existing Executive Compensation report included in the proxy statement.

4. CalSTRS supports the limitation of non-audit services that an external auditor can provide to an audit client. If non-audit services other than taxation issues are provided and disclosed, CalSTRS shall cast a negative vote against that auditor’s continuance. External auditors that also have direct investments in audit clients or affiliates of audit clients will not be considered as Independent Auditors/Accountants and CalSTRS shall cast a negative vote against the auditor’s selection/adoption.
5. CalSTRS supports limiting external auditor firms to seven consecutive years of audit service to portfolio companies.

## **B. BOARD OF DIRECTORS**

1. Generally, information and circumstances permitting, votes are to be cast in favor of annual election of all directors and against staggered terms. Exceptions may be made as circumstances dictate or when pertinent information is unavailable. Once all shareholders have decided through the voting process that the board should be staggered, nominees should be elected based on their qualifications and merits, though CalSTRS' interest may argue for actions proposing the repeal of staggered terms.
2. Generally, votes are to be cast in favor of simple majority approval, of shares outstanding, as appropriate for merger proposals. Proposals seeking higher percentages may be approved only if approval is in the financial interest of CalSTRS. Exceptions may be made when pertinent information is unavailable. For example, a proposal which sought to reduce the super majority requirement from 80% to 66 2/3% would generally receive a favorable vote; whereas, a proposal to increase the vote required from a simple majority to a higher percentage would generally not receive a favorable vote.
3. It is concluded that corporate board members primary responsibilities should be to direct the companies in the interest of all the shareholders. Any proposed director qualifications should relate to a prospective director's capacity to function on behalf of all the shareholders; to the extent that such qualifications are disclosed, votes are to be cast on this basis. However, as a matter of policy, CalSTRS supports the concept of an independent non-executive chairman, who has not had a substantive employment relationship with the company in the past five years. Shareholder proposals which seek a non-executive chairman will generally receive support and may be introduced on behalf of CalSTRS.

Sitting directors who have been on the board for a full year and who have not attended at least 75% of the meetings will receive a negative vote. In such cases, CalSTRS will split its votes on the issue of directors and vote against the individual nominee. In casting its vote regarding directors, the financial performance of the subject corporations will be reviewed, and if long-term underperformance, relative to the market and industry group are severe, a negative vote may be cast for the entire slate of directors.

- A. It is concluded that since the Audit Committee is a subset of the entire Board of Directors, the performance of the Audit Committee is the responsibility of the entire Board of Directors. The Board of Directors must provide active and independent oversight of all of its review committees, such as Audit, Nominating, Compensation, and Governance. All persons who serve on Audit Committees must be unaffiliated, independent directors, whose only material relationship to the company is the directorship. In recognition of the unique expertise and time commitment required for the Audit Committee, CalSTRS supports the view that members of the Audit Committee should receive greater compensation than other Board Committees. The Board of Directors should also consider limiting the term of Audit Committee service, by automatic rotation or other methods.
- 4. Generally, votes are to be cast against blanket requests for limitations of liability and indemnification protection of directors and officers. Generally, such requests allow the protected individual to escape liability even if he or she is found by the courts to have been grossly negligent in the performance of his or her duties as a director and/or officer of the corporation. It is concluded that it is not in the best interest of shareholders to grant such protection on an across-the-board basis. Exceptions may be made as circumstances and legal requirements dictate.
    - A. Legal requirements and circumstances permitting, positive votes may be cast for management sponsored proposals requesting increased indemnification of directors and officers due to damage caused by violations of the duty of care, so long as the director/officer satisfied a "good faith" standard. Broader protection may be supported, provided there is a reasonable basis for support.
    - B. Legal requirements and circumstances permitting, positive votes may be cast for increased indemnification proposals where a director/officer defense is unsuccessful, unless there is a final legal/court determination that the director/officer acted in bad faith and not for a purpose that he or she could reasonably believe was in the best interest of the company. Broader protection may be supported, provided there is a reasonable basis for such support.
    - C. Legal requirements and circumstances permitting, negative votes may be cast against company proposals that request the elimination or limitation of directors' liability for acts evolving from negligence, or other violations of the duty of care that go beyond reasonable standards, except in markets where local conventions suggest otherwise.
  - 5. Votes may be withheld for the entire slate of directors if a majority of the candidates are also corporate officers. Votes may be cast against the entire slate of directors if a majority of the candidates are also corporate officers or have been corporate officers in the past of the company. Additionally, votes may be withheld when it appears that the existing board has been remiss in the performance of its oversight responsibilities. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party. Finally, negative votes may be cast when committees, such as the Nominating, Compensation and Audit, are not composed of independent directors.

6. Votes are generally to be cast against the payment of fees to inside directors. Votes are generally to be cast against proposals granting retirement benefits and/or stock options, stock grants to outside directors, except in markets where local conventions suggest otherwise. However, proposals which seek to pay outside directors' fees in stock instead of cash will receive a positive vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
7. Votes may be withheld for directors who may have an inherent conflict by virtue of receiving consulting fees from a corporation such as legal counsel and investment bankers who underwrite the corporation's securities. It is concluded that outside directors should remain independent in order to serve the best interest of all shareholders. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
8. Generally, votes should be withheld for the entire slate of proposed directors when management is proposing a series of defensive measures, which serve to insulate incumbent management and hinder the ability of mergers or takeovers to proceed. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
9. Where director candidate(s) are employed by a company having a 20% or greater interest in the subject company, the director candidate(s) will be considered insiders. Should the majority of the director candidates be insiders or have conflicts of interest, votes may be withheld for the entire slate of candidates. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
10. Generally, shareholder proposals requesting the board of directors to establish a nominating committee for the selection of director candidates are to receive a favorable vote. CalSTRS believes that all important review committees such as nominating, audit and compensation should be entirely staffed by independent directors. Proposals and/or actions which seek to have such a structure established may be initiated or supported by CalSTRS. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
11. Proposals which seek to limit the tenure of directors should receive a negative vote. Proposals which require directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board should receive a negative vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.

## **C. CORPORATE GOVERNANCE**

1. Whenever possible, votes will be cast in favor of cumulative voting proposals as required for governmental pension funds under California law (Section 6900, Government Code).
2. Generally, information, legal requirements and investment analysis permitting, votes may be cast against proposals which would grant preemptive rights to shareholders and in favor of

proposals which would eliminate such rights. In some markets, preemptive rights result in a loss of financing flexibility and are likely to deter companies from fulfilling one of their functions, which is to raise capital advantageously. However, in some markets it is believed that the removal of preemptive rights result in a loss of financing flexibility. Thus, the party responsible for executing the vote must exercise his or her best judgement on this matter.

#### **D. EXECUTIVE AND EMPLOYEE INCENTIVE COMPENSATION**

1. Stock options and incentive compensation plans must have the overriding purpose of motivating corporate personnel **and should by design, encourage long-term behavior in opposition to short-term behavior. It is not in the interests of shareholders, employees or the companies to support unnecessarily high labor costs, as this will result in making the companies uncompetitive with consumers and providers of capital.** To insure that such plans are **aligned with shareholders' interest** cost and performance effective, attention should be paid to corporate performance. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
  - **CalSTRS believes that shareholders should have the right to review and decide on all equity based compensation plans and that, failing shareholder approval, such plans should not be implemented. CalSTRS believes that this standard should not only apply to companies whose shares are listed on exchanges, but to OTC companies as well. CalSTRS supports a more egalitarian distribution of incentive compensation among employees, but insists that the total labor cost to shareholders be reasonable.**
  - **When reviewing stock options and incentive compensation plans, the fund will pay careful attention to the net dilution that will be suffered by shareholders as a result of the plans' implementation. This dilution calculation will be based on the Capital Asset Pricing Model and will have as its components, the risk-free rate of return in evidence at the time the plan is being reviewed, the equity risk premium in evidence at the time the plans is being reviewed and the stock's beta. The CAPM return for the company would be the sum of the risk-free rate plus the equity risk premium, multiplied by the beta, reduced by whatever the dividend yield is on the stock. When the options are exercised and the company gets to deduct the gain on exercise and the company's marginal tax rate is considered, the company's cash flow and profit should increase by some multiple of the gain and the tax rate.**
  - **On exercise, once consideration has been received for the options shares, the company can use it to buy back additional shares. The net dilution will be the difference between the original grant and the shares that the company buys back. This model would account for risk; options in risky stocks are worth more and will cost shareholders more than options in less risky stocks; net dilution on higher beta stocks will be higher than the net dilution experienced on lower beta stocks. In-the-money options will produce higher net dilution than the same number of out-of-the-money options or indexed options.**
  - **CalSTRS will favor the establishment of Non-Qualified Stock Option (NQSO)) over Incentive Stock Options, because NQSOs are more advantageous to shareholders in that the gains derived from them are deductible by the issuing**

corporation. CalSTRS intends to apply the broad based equity compensation standard to the companies that annually constitute the Russell 1000 Index. CalSTRS will not support any equity compensation plans where shareholders will suffer greater than 20% net dilution, or where greater than 5% of the total equity compensation granted is to the top 5 executive officers. When companies are presenting the performance metrics that will be used for these equity compensation plans, such measures should be easily identifiable and have validity for shareholders; at a minimum, growth in earnings per share, return on equity and total return should be included as performance measures. Additionally, there should be threshold levels in any equity compensation plan and they should be clearly explained in the proxy statement and the plan document that is provided when such plans are presented for approval. this means there must be some level of performance for which employees will receive no reward.

- Awards of equity compensation would only be generated on the portion of performance achieved above the threshold level. Executives and employees receive salaries and they ought to deliver some threshold level of performance before they receive any additional compensation, no matter its form. The broad based equity compensation plans will be allowed a greater net dilution rate of 20% rather than the 15% that is allowed for companies outside of the Russell 1000. However, net dilution rates will be reviewed with an eye towards the companies' past practices, as well as the current practices of comparable companies in the same industry or of the same approximate size.
  - Generally, CalSTRS intends to use the net dilution standard to permit higher net dilution in companies where the long-term performance metrics have been higher, on a relative basis, to comparable companies and lower net dilution in companies where the long-term performance metrics have been lower, on a relative basis, to comparable companies and to encourage minimum vesting periods of five years. CalSTRS will continue its practice of voting against granting discounted options greater than 85%.
2. Generally, proposals which only seek to enable corporations to comply with the tax code deductibility rules regarding executive pay are to receive a favorable vote. Exceptions may be made in the instance of mega grants, unclear links between performance, performance hurdles that seem too generous given past history, and no defined peer group by which to judge performance of the subject corporation. Tandem stock options, stock appreciation rights, purchased options may receive a negative vote. Generally, tandem options are a combination of stock options and another type of long-term incentive such as restricted stock or phantom stock. This vehicle can allow for cashless exercise, depending upon the executive choice of exercise or payment. CalSTRS is opposed to cashless exercise. Purchased options are usually purchased for a percentage of the grant value and are payable at the time of grant. The exercise price is set below the fair market value of the underlying stock. Indexed options will be supported by CalSTRS.
3. Votes are generally to be cast against executive incentive stock option plans which would result in greater than 15% of the outstanding shares of the corporations represented by the Russell 2000 being reserved exclusively for the executive stock option plan, except in markets where local conventions suggest otherwise. This figure includes shares proposed for

a new plan or amendment plus shares reserved under all existing plans, plus all shares under option but not yet exercised. Typically, no greater than 2 percent dilution per year for the life of the plan should be experienced by shareholders. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle. **CalSTRS favors the use NonQualified Stock Options as they are more beneficial to the shareholders.**

4. Votes are generally to be cast against executive incentive stock option plans which would sell shares to executives/**employees** at a price of less than 85% of market value at the time of grant, unless a lower value may be legally offered.
5. **The Sarbanes-Oxley Act of 2002 has prohibited loans to executives of listed companies; however it is unclear whether the prohibition will be extended to OTC companies.** Votes are generally to be cast against executive incentive stock option plans which would grant loans to such executives for the purpose of exercising stock options. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
6. **The Sarbanes-Oxley Act of 2002 has prohibited loans to executives of listed companies; however it is unclear whether the prohibition will be extended to OTC companies.** Votes are generally to be cast against executive incentive stock option plans which would grant loans to such executives to settle tax liabilities associated with the exercising of incentive stock options. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
7. Votes are generally to be cast against Restricted Stock Option Plans, outright stock grants or other arrangements to such as pyramiding, stock appreciation rights and cashless exercise. Votes are generally to be cast against proposals which would allow the board to replace or reprice underwater options without shareholder approval. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
8. Executives are defined as the five most highly compensated executive officers of a Company and its subsidiaries, and such other senior-level executive and management employees who are designated to receive executive incentive compensation, apart from that which is given to general employees. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
9. It is the responsibility of the companies to clearly, understandably, and adequately explain the plans and their effects with examples where necessary in order to fully define intent. However, where time permits, inquiry may be made about corporate proposals which are not clear. If the information available and/or obtained is not considered clear or adequate, votes cast will be based on the surrounding circumstances and the judgement of the responsible parties.
10. Corporate proposals to reduce stock option share prices for management should be given close scrutiny. If it appears the request arises out of a broad market decline affecting all

companies, favorable consideration is possible. If the stock has underperformed the market and it is concluded the causes were management decisions, a negative conclusion would be probable. Such proposals will be considered on a case-by-case basis.

11. Generally, any attempt to create an unusually favorable compensation structure in advance of sale of a company should be opposed; however, such proposals will be considered on a case-by-case basis.

## **E. EMPLOYEE COMPENSATION**

1. Generally, employee stock purchase plans, savings and investment plans, or thrift plans are to receive a positive vote, so long as exercise or purchase price is not less than 85% of fair market value on the date of grant or purchase, and no loans are made for the purposes of settling payment for shares or any tax liability arising from exercise or purchase of such shares. Shares issued and reserved with respect to such plans shall only be done when necessary and for the specific uses of the plans. However, such proposals will be considered on a case-by-case basis.

Generally, ESOP 's which are funded by the debt of the corporation and/or which represent large percentages of the outstanding shares or cause substantial dilution to ownership and voting power are to be given a careful review. In the absence of any extraordinary or beneficial (to CalSTRS) circumstance, these plans should not be approved. Shareholder proposals which seek to have a vote on all such plans should receive a positive vote.

## **F. MERGERS, ACQUISITIONS, AND TAKEOVERS**

1. CalSTRS wants all offers evaluated on its behalf, which are presented for any company in which it invests. To the extent that adequate information is available and legal requirements, and investment practices permit, defensive tactics should be opposed. Each proposal should be reviewed on its own merit, as nothing written here should be constructed as a substitute for the judgement of the responsible party. These defensive tactics may be, but are not limited to:
  - A. Golden parachutes.
  - B. Poison-pill preferred.
  - C. Lock-up options.
  - D. Super majority voting provisions, with the exceptions noted above in Section B (2).
  - E. Fair price or minimum price provisions.
  - F. Unequal voting rights based on length of ownership of stock.
  - G. Requiring that shareholders only be allowed to act at meetings rather than by written consent.



- H. Requiring that all offers be approved by the company's management and/or Board of Directors before offers are submitted to shareholders.
- I. Requiring that only the Board be allowed to increase its size, or that a super majority of all outstanding shares is necessary to create a larger Board, and allowing the Board to fill vacancies on the Board in between meetings, without shareholder approval.
- J. Requiring that directors may only be removed for cause, usually on the basis of a supermajority vote, and that directors be allowed to fill vacancies for full terms rather than the remainder of unexpired terms.
- K. Providing for a set of designated "alternate" directors to be appointed to any mid-term vacancy.
- L. Requiring that the power to call a special meeting of the shareholders be vested in the board and/or the Chairman exclusively, or providing that such a meeting can only be called after a demand by a supermajority of stockholders, or increasing the number of shareholders necessary to constitute a quorum at an annual or special meeting.
- M. Adopting supermajority voting provisions for transactions between the target company and an "interested shareholder."
- N. Requiring that the percentage vote requirement be based on all outstanding shares entitled to vote and not on votes actually cast.
- O. Enacting redemption provisions where if any person owns a certain percentage of stock pursuant to a hostile tender offer, which is opposed by the management and/or Board of Directors, the other shareholders have the right to have their shares redeemed by the company at a specified price.
- P. Requiring the Board and/or senior management to consider social, economic and "other factors" when evaluating a bid for the company, rather than basing its decision solely on the price being offered.
- Q. Granting a director who is the Chairman or Chief Executive Officer a second or tie-breaking vote.
- R. Reincorporating in other states solely for the purpose of seeking protection against tender offers and takeovers.
- S. Issuance of new common and preferred shares and placing the issues in so called "friendly" hands, sympathetic to management.
- T. Assuming large amounts of debt which will impair the capital position of the corporation, in order to repurchase the corporation's stock and avoid a tender offer.

2. Each proposal will be evaluated on its merits, but if it is determined that the sole aim of the proposal is to entrench management, and wrest authority and control from shareholders, a vote is to be cast against such proposals. However, this guideline is no substitute for the judgment of the responsible party.
3. CalSTRS also opposes so-called "Omnibus Resolutions, where management offers one item which is beneficial to shareholders, such as anti-greenmail, and attaches a "rider" or other items such as the ones described above, which are not in the best interests of shareholders. In this situation, a vote will be cast against the entire proposal. A letter (where appropriate) to management may be written by the designated party indicating displeasure with this "lumping" and requesting that the issues be separated.
4. Generally, votes are to be cast against proposals which adopt or give the Board of Directors discretionary power to adopt measures designed to deter takeover attempts or other attempts to obtain control of the corporation by making such attempts extremely financially unattractive or impossible, unless such action has received the prior approval of the shareholders of that company. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will dictate CalSTRS vote on this matter.
5. Reincorporation proposals will be examined on a case-by-case basis.

#### **G. CORPORATE FINANCING PROPOSALS**

1. Authorization of increased shares shall generally be limited to that amount which may be necessary for financing within the next twelve months unless the corporation sets forth other compelling reasons. It is deemed advisable to exercise some control over authorized stock and issuance thereof to allow shareholders input on acquisitions which could change the fundamental characteristics of the company held. Support will generally be given for authorization of up to 15% in excess of the current outstanding stock. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will influence CalSTRS' vote on this matter.
2. In general, all shareholder proposals on financial matters are to be given due consideration by CalSTRS and/or its advisers. It is incumbent on the companies to respond adequately to these proposals. An inadequate or casual response may affect the responsible party's deliberations and weigh in favor of voting for the shareholder proposal.

Notwithstanding any other provision of the law, every state agency owning common stock shall, when returning proxies to a corporation, vote each proxy that is returned to the corporation. Nothing in this section shall prohibit a state agency owning common stock from abstaining on a corporate or shareholder proposal and notifying the corporation in writing of the state agency's desire to abstain on a corporate or shareholder proposal.

As used in this section "state agency" includes the state, the University of California, and any office, department, bureau, board, commission, agency, or pension or retirement system thereof.

Approved by Board: June 11, 1982

Amended by Investment Committee: June 7, 1985

Amended by Investment Committee: July 19, 1985

Amended by Subcommittee on Financial Proxies: August 5, 1988

Amended by Investment Committee: October 7, 1988

Ratified by Teachers' Retirement Board: October 22, 1988

Amended by Subcommittee on Corporate Governance: March 11, 1992

Approved by Investment Committee: April 1, 1992

Ratified by Teachers' Retirement Board: April 2, 1992

Amended by Subcommittee on Corporate Governance: October 6, 1995

Approved by Investment Committee: October 6, 1995

Ratified by Teachers' Retirement Board: October 6, 1995

Amended by Investment Committee: November 5, 1997

Approved by Investment Committee: November 6, 1997

Ratified by Teachers' Retirement Board: November 6, 1997

Amended by Subcommittee on Corporate Governance: April 3, 2002

Approved by Investment Committee: April 3, 2002

Ratified by Teachers' Retirement Board: April 4, 2002

Amended by Subcommittee on Corporate Governance: July 10, 2002

Approved by Investment Committee: July 10, 2002

Ratified by Teachers' Retirement Board: July 11, 2002.

**Amended by the Subcommittee on Corporate Governance: July 9, 2003**

**Approved by the Investment Committee: July 9, 2003**

**Ratified by the Teachers' Retirement Board: July 10, 2003**